

**Nova Scotia Department of Finance
Annual Accountability Report for the Fiscal Year
2011-2012**

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1.0 Accountability Statement

The Accountability Report of the Department of Finance for the year ended March 31, 2012 is prepared pursuant to the *Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Finance Statement of Mandate for the fiscal year 2011-2012. The reporting of the Department of Finance outcomes necessarily includes estimates, judgments and opinions by Department of Finance management.

We acknowledge that this Accountability Report is the responsibility of the Department of Finance management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Department of Finance 2011-2012 Statement of Mandate.

Honourable Maureen MacDonald
Minister of Finance

Elizabeth Cody
Deputy Minister of Finance

2.0 Message from the Minister

I am pleased to present the 2011-2012 Accountability Report for the Department of Finance.

The annual Accountability Report is an opportunity to demonstrate activities and accomplishments across key policy and program areas and to highlight performance in the day-to-day activities the department undertakes to help government operate efficiently and effectively.

The department achieved a number of priorities in 2011-2012, including:

- The conclusion of public and stakeholder consultations on auto insurance and the introduction of legislative and regulatory reforms to provide better coverage and more choice for Nova Scotians
- The continued decline of the province's debt-to-GDP ratio, remaining on track with the four-year fiscal plan
- The use of interactive technology as part of the annual Back to Balance pre-budget public consultation
- The completion of the Business Enhancement Project

These and many other achievements are a testament to the hard work of department staff. I would like to take this opportunity to thank each and every one of them for their ongoing dedication and service to the government and to the people of Nova Scotia.

As a newly appointed Minister, I look forward to working with the department staff to further advance the priorities of the department.

3.0 Financial Results

Department of Finance			
	2011-2012 Estimate	2011-2012 Actual	Variance
Program & Service Area	(\$thousands)	(\$thousands)	(\$thousands)
Program Expenses:			
Senior Management	4,427	4,049	(378)
Associate Deputy Minister and Controller	26,006	24,185	(1,821)
Policy and Planning	868	897	29
Corporate Services Unit	1,449	1,367	(82)
Fiscal and Economic Policy	3,257	3,053	(204)
Total Program Expenses (note 1)	36,007	33,551	(2,456)
Additional Information:			
Fees and Other Charges	(26)	(29)	(3)
Ordinary Recoveries	(3,386)	(3,798)	(412)
TCA Purchase Requirements (note 2)	7,346	6,708	(638)
Provincial Funded Staff (FTEs) Net	238	216	(22)

Notes: Significant Variance Explanations: 2011-2012 Estimate to 2011-2012 Actual

1. Overall, departmental expenses were \$2.5 million under budget. This was due to savings from staff vacancies and operational savings across the department, primarily in the ADM/Controller division.
2. TCA purchase requirements were under budget by \$0.6 million due to delays in project completion.

4.0 Measuring Our Performance

Measure: Credit Spread relative to Ontario

What does the measure tell us?

The relative cost of borrowing for the government of Nova Scotia as compared to the government of Ontario's cost of borrowing. Ontario is used as the provincial benchmark across Canada because it issues the majority of provincial debt in the country.

This measure should, over time, reflect the risk the markets associate with the bonds issued by both provinces to finance their respective provincial debts.

Where are we now?

The target for 2011-2012 identified in the department's 2011 Statement of Mandate is to be at the same rates as Ontario, or a nil credit spread. We can currently borrow at a cost (or credit spread relative to Ontario) of +2.5 basis points (bps = 0.0001%) for a ten-year new issue, and +5 bps for a thirty-year new issue.

Where do we want to go?

Over the short term, it is difficult to identify a realistic goal relative to Ontario's credit spread, given current uncertainty in financial markets and other technical factors. Over the medium- to long-term, the government's goal is to achieve a cost of funds similar to Ontario.

Measure: Credit ratings by major rating agencies

What does the measure tell us?

A credit rating is an independent evaluation of a borrower's ability and willingness to pay interest and to repay principal. Rating firms provide investors with these measures of the credit quality of bonds or other financial instruments. A credit rating indirectly affects the borrower's borrowing costs and the investor's expected rate of return since an investor will demand a higher return on a more risky, lower rated security.

Where are we now?

The province is rated single A by DBRS, A+ by S&P, and double A by Moody's. All three agencies issued a stable outlook for the province as of March 31, 2012.

A chart outlining individual provincial ratings can be found in the Province's 2012 Budget Assumptions and Schedules, page 3.24:

[http://www.novascotia.ca/finance/site-finance/media/finance/budget2012/Budget Assumptions And Schedules.pdf](http://www.novascotia.ca/finance/site-finance/media/finance/budget2012/Budget_Assumptions_And_Schedules.pdf)

The following links will take you to each agency's rating methodology:

S&P: http://img.en25.com/Web/StandardandPoors/Ratings_Definitions.pdf

Moody's: <http://www.moody.com/Pages/amr002002.aspx>

DBRS: <http://www.dbrs.com/research/239144/rating-canadian-provincial-governments.pdf>

Where do we want to go?

The long-term goal is to be rated double A with a stable outlook by all three of the major rating agencies.

Measure: Unqualified audit report and timely release of consolidated financial statements (Public Accounts)

What does the measure tell us?

This measure illustrates the department's commitment to accurate, timely financial reporting and meeting the legislative requirement to release the Public Accounts by September 30th.

Where are we now?

We continue to achieve this measure. All three volumes of Public Accounts for 2010-2011 received an unqualified audit opinion from the Auditor General, and were released on July 28, 2011.

Where do we want to go?

Continue to produce consolidated financial statements that receive an unqualified audit opinion and that meet or exceed the legislated final date for reporting of September 30th.

Measure: Net debt to GDP

What does the measure tell us?

Net debt as a percentage of GDP is an indicator of the fiscal sustainability and flexibility of the province. The higher the ratio, the greater the debt burden on the residents of Nova Scotia. A declining ratio indicates that the net debt of the province is declining relative to the size of the overall provincial economy.

Note: The Nominal Gross Domestic Product used in this measure is revised annually for the current year and up to four previous years. As such, ratios previously stated for particular years may change as GDP numbers are updated by Statistics Canada.

Where are we now?

As of March 31, 2011, the actual net debt to GDP ratio stood at 35.3 per cent. This represents a decrease from the ratio of 37.5 per cent as of March 31, 2010.

The target ratio included in the 2011-2012 Statement of Mandate was 36.6 per cent. The final forecast for 2011-2012, published in the 2012-2013 Budget, was 35.2 per cent, with the 2011-2012 actual to be released as part of the 2012 Public Accounts.

The current estimate for 2012-2013 (long-term target) is 34.8 per cent, and 33.7 per cent for 2013-2014. This decline represents an improvement from the long-term target of 36.6% that was included in the 2011-2012 Statement of Mandate.

The trend is a declining ratio from a high of 48.7 per cent in 1999.

Where do we want to go in the future?

Because this measure is an indicator of the fiscal health of the province, the ongoing goal is to lower the ratio.

Measure: Sustainable Pension Plans

What does the measure tell us?

A pension plan's funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100 per cent means that a plan is fully funded: the fund's assets are sufficient to cover liabilities, based on current market values and actuarial assumptions. If liabilities are greater than assets, then a plan has an unfunded liability. A surplus occurs when a plan's assets exceed its liabilities.

Where are we now?

Funded ratios as of December 31 of each year:

Public Service Superannuation Plan (PSSP)

2011- 97.6%
2010- 104.1%
2009- 69.3%
2008- 64.1%
2007- 83.5%
2006- 89.6%
2005- 88.0%
2004- 85.2%
2003- 85.8%

Where do we want to go?

To reach and/or maintain a 100 per cent funded ratio for the PSSP.

Measure: Internal (Government) access to required IT programs

What does the measure tell us?

The measure describes the provision of access and services to our central IT program.

Where are we now?

Building on previous initiatives, the Department has further implemented new functionality and continued to streamline service delivery by providing a self-service portal that acts as one point of contact to employees and managers for access to financial and human resource information. The implementation of various workflow's and interactive Adobe forms has expedited the flow of information and approval of various business transactions such as Travel and Expenses and Position and Hiring Process (PHP) from user/requestor to approver to completion through improved Manager Self Service "Tasks". Quality assurance processes continue to be supported by a tracking system that documents client service issues and yearly audits are undertaken to measure compliance with standards and policies that safeguard customer data. In terms of skill development, vacancies in the Corporate Information Systems Division continue to be filled with emerging technologies in mind so that staff can easily assume new tasks when systems, certifications and standards are rolled out.

Where do we want to go?

Improving front-line client support is an on-going, long-term goal for the Department's central IT program. Continuing with initiatives already in operation, improving audit requirements and results and a low staff vacancy rate to ensure capacity in client service, will be key to achieving this goal.

Measure: Centralization of Payment Production

What does the measure tell us?

This measure describes areas where services have been either centralized with standardized controls and processes, or updated for improved controls and efficiencies.

Where are we now?

Much centralization has been completed, including the 2011-2012 target to implement Labour Market Development Agreement payments. Other accomplishments include: major Income Assistance program payments for the Department of Community Services; rebates and refunds from Service Nova Scotia and Municipal Relations (SNSMR) programs; Health programs for caregivers at home; and payments to school boards.

The 2011-2012 target to migrate production for court ordered payments (Maintenance Enforcement) was not able to proceed as planned due to restructuring at the Department of Justice (DOJ). DOJ has since signaled its readiness to proceed in 2012-2013.

Staff providing payments for payables, payroll and pensions have been merged into one group to provide better coverage for these functions.

Centralized Accounts Receivable has been created on SAP and rolled out to numerous areas. We have implemented more rigorous collections efforts by partnering with SNSMR Collections group.

Where do we want to go?

There are several areas where the department plans to assume centralization:

- Centralization of payments for Maintenance Enforcement Program.
- Expanded enrolments for payments by direct deposit.
- Provide more forms electronically for use via the portal.
- Expanded use of centralized Accounts Receivable.

Measure: Enhanced Risk Management of Corporate Credit Card System

What does the measure tell us?

This measure describes areas where services have been either centralized with standardized controls and processes, or updated for improved controls and efficiencies.

Where are we now?

Corporate credit card policies have been revised and are being formatted for approval and release and the supplier contract is being finalized.

Where do we want to go?

The new policies and procedures will be rolled out across the government with supportive training once the supplier contract is in place.

Measure: Corporate Income and Capital Tax Rates**What does the measure tell us?**

Corporate income and capital tax rates measure the overall marginal taxes on Nova Scotia businesses. These rates are the most visible measure of the tax environment for businesses considering investment in Nova Scotia. This measure tells us the general tax rates applied to business income and to business capital investments. Comparing our tax rates with other jurisdictions is a key indicator of Nova Scotia's tax competitiveness.

Where are we now?**Business Tax Rates for 2011 Tax Year**

	NS	NB	ON	AB	Federal
General income tax	16.0%	10.0%	11.5% ^a	10%	16.5% ^c
Small business income tax	4.5%	5.0%	5.0%	3.0%	11.0%
Large Corporations Tax (Non-financial capital tax)	0.05% ^e	0% ^d	0.225% ^b	0%	0%
Corporations Capital Tax (Financial capital tax)	4.0%	3.0%	0.45-0.675%	0%	1.25% ^f

a - Ontario offers a 1.75% credit for manufacturing and processing profits, reducing the effective rates for these activities to 10%.

b - In the 2008 Budget, Ontario eliminated the capital tax for companies in manufacturing and resource industries, effective January 1 2008. The 2007 Budget accelerated the elimination of the Capital Tax for all industries to 0% by July 1, 2010; 18 months sooner than originally planned.

c - The Fall 2007 Economic Update announced the plan to reduce corporate income tax to 15% by 2012.

d - New Brunswick's capital tax was eliminated on January 1, 2009.

e - Nova Scotia's Large Corporations Tax continues to be reduced annually towards phase-out by July 1, 2012.

f - The capital tax applies to taxable capital employed in Canada exceeding \$1 billion.

Where do we want to go?

The phasing out of the Large Corporations Tax (LCT) by 2012 continues, as announced in the 2006-2007 Budget. In July 2011, this tax rate was reduced by another 0.05 per cent to 0.05 per cent.

The Department of Finance monitors and assesses overall taxes for Nova Scotia corporate taxpayers and maintains a close working relationship with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues.

Effective January 1, 2012 the province lowered the small business corporate income tax rate from 4.5 per cent to 4.0 per cent, recognizing the importance of small business to the Nova Scotia economy. Canadian Controlled Private Corporations (CCPCs) with taxable capital of less than \$10 million can apply the rate on the first \$400,000 of active business income.

Measure: Personal Income Tax

What does the measure tell us?

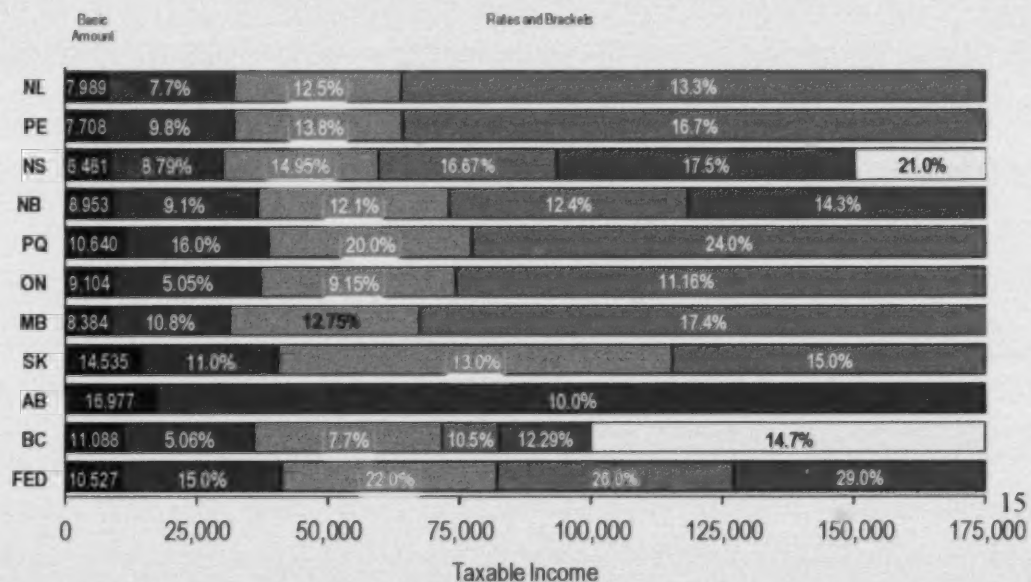
Personal income tax rates and brackets tell us how much individual tax payers in different income ranges would have to pay (in provincial taxes) on their next dollar of taxable income. This measure allows for comparing the levels of taxation among provinces at different income levels. Personal income tax rates do not measure the overall level of taxes because they ignore how much taxable income Nova Scotians actually earn and how it is distributed among them.

Where are we now?

Nova Scotia's personal tax rates are generally higher than other provinces, but less than those levied by the federal government. Commencing in 2010 Nova Scotia implemented two measures that will remain in effect until the province returns to a fiscal balance: (1) eliminated the 10 per cent surtax imposed on individuals with personal income taxes payable of more than \$10,000; (2) implemented a fifth income tax bracket of 21 per cent applicable to taxable income exceeding \$150,000.

The province increased the Basic Personal Amount by \$250/year for the tax years from 2007 to 2011. A corresponding increase has been made to the non-refundable block of credits as well. Most other provinces increase their basic amounts and tax brackets every year. In comparison, the Alberta tax system charges a 10 per cent flat tax on incomes above the 2011 basic amount of \$16,977.

Personal Income Tax Rates in Canada (2011)



The government has introduced a series of tax measures to reduce taxes. This has been planned in a prudent way to ensure that the government can promote the province's competitiveness with an efficient tax system that meets social needs within the fiscal resources available.

In 2011, the department began administering the government's 2010 commitment to refund provincial income taxes to residents who are in receipt of the Guaranteed Income Supplement (GIS) – a federal transfer for low-income seniors.

Where do we want to go?

The department will continue to monitor and assess overall personal income taxes while examining the socioeconomic demographics of Nova Scotia tax payers. The department will continue to focus on maintaining close working relationships with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues.

Measure: Fair and affordable auto insurance

What does the measure tell us?

The measure tells us Nova Scotia residents are receiving appropriate, fair and affordable automobile insurance.

Where are we now?

Average earned premium:

2010- \$807.38
2009- \$804.37
2008- \$808.50
2007- \$816.57
2006- \$824.58
2005- \$865.48
2004- \$787.37
2003- \$945.41
2002- \$799.57

Where do we want to go?

The Government is now conducting an automobile insurance review and anticipates this will further enhance the established criteria of ensuring the Nova Scotia automobile policy is appropriate, fair and affordable.

Measure: Staff engagement as measured in "How's Work Going?" Survey

What does the measure tell us?

This measure tells the proportion of department staff that feel connected and involved with their job and the organization.

Where are we now?

The corporate survey takes place every two years. In the Department's 2011 Statement of Mandate, the long-term target identified with this measure was to "continue to surpass the corporate rate of engagement". In the 2011 Survey, both the department and government-wide engagement rate was 62 percent.

Where do we want to go?

Improve and continue to meet and/or surpass the corporate average results.

Measure: Percentage of staff with orientation training in Violence Prevention

What does the measure tell us?

This measure tells us the number of staff that participated in the orientation training and the extent to which the department promotes a safe and healthy workplace.

Where are we now?

In 2011-2012, 15 staff took the Violence Prevention training, bringing the total number of staff with training to 81, which is approximately 48 per cent of department staff.

Where do we want to go?

Increase the rate of participation to ensure that staff is knowledgeable in violence prevention mechanisms and resources.

Appendix A**Annual Report: Section 18, *Public Interest Disclosure of Wrongdoing Act*****Table A.1**

The following table is a summary of disclosures received by the Department of Finance.

Information Required under Section 18 of the PIDW Act	Fiscal Year 2011-2012
Number of disclosures received	Nil
Number of findings of wrongdoing	Nil
Details of each wrongdoing	Nil
Recommendations and actions taken on each wrongdoing	Nil